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C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 000233

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SUBJECT: JAPAN: THE OPPOSITION'S GAS-FILLED RHETORIC

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Classified By: Ambassador J. Thomas Schieffer for reasons 1.4 b/d.

#### Summary

11. (C) Fighting to allow the expiration of a "provisional" gasoline tax (it began in the 1970s) and related tax surcharges will be the opposition Democratic Party of Japan's (DPJ) central issue in the current Diet session, DPJ Diet member Yosuke Kondo told Embassy Tokyo January 23. The party chose the tax as its headline issue, he said, because it is a reform that is both popular and politically advantageous. End summary.

#### Igniting Reform

12. (C) Storied Japanese politician Kakuei Tanaka laid the foundation for Japan's special road taxes (including gasoline taxes) through bills he introduced in the 1950s, DPJ Diet member Yosuke Kondo told the Embassy January 23, and they have served as the basis for pork-barrel collusion among politicians, bureaucrats, and construction interests ever since. The tax system earmarks significant revenues for road construction (5.1 trillion yen, or \$46 billion at 110 yen to the dollar, in FY2006) and has entrenched road spending as a top budget allotment for decades.

13. (C) Japan's economic structure has changed fundamentally over that time, however, and Kondo argued new tax and budget structures should be matched to the needs of a globalized economy. Changes to the road tax, he suggested, would only be the beginning. If its entrenched interests could be broken, wasteful defense spending and collusive bidding practices could be attacked as well.

14. (C) Kondo added DPJ leader Ichiro Ozawa is the "perfect" politician to spark those reforms. As the final apprentice of Tanaka's political machine, Ozawa would be seen as attacking his political benefactor's legacy. Kondo savored the irony that, in pushing to maintain special taxes, Prime Minister Fukuda would defend Tanaka's creation despite being the son of Tanaka's fiercest political rival.

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15. (C) Kondo acknowledged the DPJ would also gain tactical political advantage by letting the taxes expire, because the ruling Liberal Democratic Party (LDP) has long used the road taxes to cement support from construction interests. Kondo played up the policy's popularity, however, noting DPJ leader Ozawa decided to make it the party's central issue after research revealed voters favored it in both rural and metropolitan areas.

16. (C) Kondo recounted a "neutral" constituents' meeting in his home prefecture of Yamagata, where he and the prefecture's LDP governor faced off. The governor argued the end of gasoline taxes would seriously affect the prefecture's road construction and maintenance program, with dire consequences within ten years. Kondo argued repeal of the gasoline tax, given average car ownership and usage, would put 70,000 - 80,000 yen per year (\$640 - \$730) back in a household's kitty. He said the governor was surprised to see 80 percent of constituents raise their hands in favor of lower gasoline taxes when asked to weigh the gas tax repeal against a loss of road construction projects. The governor's reaction only showed how out of touch many politicians are, continued Kondo. There are no traffic jams in rural Yamagata, and two lanes are plenty to pass the occasional tractor -- what voter cares about more road improvements?

#### Special Interests Trump Regional Politics

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17. (C) Kondo admitted there are some dissenters in the DPJ, but the party split is not between representatives of rural and urban districts, as might be expected. Rather, he said

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the dissenters are DPJ members of the "road tribe" -- those supported by the construction industry -- at the national and local levels. Nonetheless, Kondo stated it is high time the party take on the interests that support such an outdated structure.

#### Comment

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18. (C) While it is easier to believe the DPJ is motivated more by the popularity of letting gasoline taxes lapse than by the policy's potential to spark significant structural change, the reform rhetoric is interesting. Polls consistently show a voter appetite for "reform" or "change" (albeit undefined), and former PM Koizumi had great success in 2005 with the narrative of running against entrenched interests.

19. (C) There is also the possibility the DPJ has miscalculated, as the tax cuts might prove unpopular if localities suffer a drop in revenue. The "provisional" gas tax raises about 2.6 trillion yen (\$24 billion) per year, which is about one-third of national road outlays proposed in the FY2008 budget. Moreover, localities, which receive directly around 900 billion (\$8.2 billion) of the threatened gasoline tax revenue, are already protesting loudly. Citizen complaints too have risen markedly, particularly after the government released a detailed "hit list" of road projects to be scrapped if the gas tax bill is defeated -- including repairs to bridges and installation of guard rails and sidewalks on roads children use to get to school. Cutting the gas tax, at first look a popular move, may prove to be a negative for the DPJ if the party gets blamed for undercutting what most Japanese view as needed services.

SCHIEFFER